SCS Agency
Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Prenter and Frusetta | Analyst: Roger Lackey | Bill Number: AB 2520

Related Bills: See Prior Analysis | Telephone: 845-3627 | Amended Date: 04-23-98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Employer Provided Preventative Health Care Credit/Farmworkers

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

__X__ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 20, 1998.

_____ FURTHER AMENDMENTS NECESSARY.

__X__ DEPARTMENT POSITION CHANGED TO Board Support.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 20, 1998 STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would create a tax credit equal to 25% of the amount paid or incurred by a taxpayer for preventive health care provided to employees who are qualified farmworkers.

SUMMARY OF AMENDMENT

The April 23, 1998, amendment defined "preventive health care" and specified that an agricultural employee must sign a document verifying that the farmworker is receiving health care paid for by the employer and is not receiving publicly funded health care.

Also, the amendment provided that the credit would be in lieu of any deduction for the expenses for which the credit is claimed.

The April 23, 1998, amendment resolved many of the policy, implementation, and technical concerns provided in the department's analysis of the bill as introduced February 20, 1998. The remaining concerns are provided below, as well as a new revenue estimate.

Except for the discussion in this analysis, the department's analysis of AB 2520 as introduced February 20, 1998, still applies.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
_X_ S ____ O	____ S ____ O	Position Approved ____
____ SA ____ OUA	____ SA ____ OUA	Position Disapproved ____
____ N ____ NP	____ N ____ NP	Position Noted ____
____ NA ____ NAR	____ NA ____ NAR	
________ PENDING	DEFER TO ____________	
Department/Legislative Director Date Johnnie Lou Rosas 5/11/98	Agency Secretary Date	By: Date:

Implementation Considerations

This bill allows a credit equal to 25% of qualified expenses, not to exceed $50,000 for any one year. Where the credit exceeds the tax liability, the taxpayer would be allowed to carry over the excess to reduce the tax liability in subsequent years. It is unclear if a taxpayer generating more than $200,000 in otherwise qualified expenses in any one year could carry over the amount in excess of the $50,000 credit limitation to reduce the tax liability in subsequent years. Further, given the December 1, 2001, sunset date for this credit, it is unclear whether the phrase “unused credit” in subdivision (f) is intended to apply only to credit amounts that have previously been allowed, but were required to be carried forward under the tax liability limitations, or whether this phrase also is intended to encompass credit amounts limited under subdivision (c).

This bill does not limit the number of years any excess credit could be carried over. Generally, credits are exhausted in eight years.

Technical Considerations

The language allowing carryover of the credit after repeal of the section is unnecessary since general tax law rules contain this provision.

Tax Revenue Estimate

The revenue impact of this measure, under the assumptions discussed below, is estimated to be as follows in applied credits:

Revenue Impact of AB 2520 Beginning 1/1/98 Assumed Enactment After 6/30/98 **(In Millions)**			
	1998-9	1999-0	2000-1
Personal Income Tax	($21)	($15)	($16)
Bank and Corporation	($17)	($14)	($15)
Total	($38)	($29)	($31)

This estimate does not account for changes in employment, personal income, or gross state product which could result from this measure.

Revenue Estimate Discussion

The revenue impact of this bill would depend upon the number of employers who incur qualified expenses for preventive health care for employees who are qualified farm workers, the average costs for qualifying expenses, and available tax liabilities of claimants.

The estimated losses were determined in several steps. First, according to the California Statistical Abstract for 1997, there are 380,500 wage and salary employees in agricultural establishments located within California. Additionally, approximately 4% of the population receive some sort of government assistance. This credit would be available only for agricultural workers who do not qualify for publicly funded health care. For purposes of a possible revenue impact, if 50% of the farm workers not receiving publicly funded health care qualify the employer for a credit, with an average expense of $1,070 (assumed qualifying expenses include children of farmworkers, based on the average cost of medical services provided by the Department of Health Services), the revenue impact would be approximately $34 million, adjusted up by a 5% annual growth in applied and carryover credits from the 1997 levels. Estimates above allow for the denial of business expense deductions, for the same expenditures. It is assumed that applied credits would be approximately 70% of the credits generated.

Board Position

Support.

At its March 26, 1998, meeting, the Franchise Tax Board voted 2-0 to support this bill, with Robin J. Dezember, on behalf of Member Craig L. Brown, abstaining.